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OFFICE OF INTERNAL OVERSIGHT SERVICES
INTERNAL AUDIT DIVISION

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To: Mr. Antonio Yachan, Programme Director and acting CTA, UN-Habitat Northern Iraq
From: *Jayanti Prasad*
Jayanti Prasad, Chief Resident Auditor
Internal Audit Division, OIOS

Subject: **Audit of Procurement of construction and other equipment**

The recommendations set out below are submitted for your consideration. Please comment on them and, where appropriate, specify the corrective action taken or provide a planned implementation schedule. When commenting please refer to the Assignment No. listed above and to the recommendation number in parenthesis in order to facilitate monitoring of its status (timely response, acceptance, implementation). Please reply by 25 December 2002.

Audit Observations and Recommendations

Introduction

1. UN-Habitat is one of the nine UN organizations implementing projects in various sectors in Northern Iraq funded under Security Council Resolution (SRC) 986 of 1995. We conducted an audit of the construction and other equipment in October 2002 in Erbil. The equipment was procured through the Contracts and Procurement Section (CPS) of UNON in Nairobi, as it is responsible for all international procurement as per the delegation of authority. The Logistics Sub-unit (LSU) of the Operations Unit (OU) is responsible for the coordination of this equipment with CPS. The property under the responsibility of LSU for phases I to VII was worth about \$38.11 million as of September 2002 funded from the 13 percent account. Of this amount, about \$4.32 million relates to construction and other equipment consisting of bulldozers; shovel dozers, a grader and generators.

Audit Objectives and scope

2. The objectives of the audit were to ensure that:

- UN-Habitat procurement of construction and other equipment is economical, efficient and effective;
- Construction and other equipment is used for intended purposes, efficiently, and is properly safeguarded from loss, misuse and waste; and
- All relevant UN Financial and Procurement Manual Regulations and Rules are adhered to.

3. The audit scope covered the period from inception to October 2002, and involved interviewing staff, reviewing available documentation, and analyzing data on a sample selection basis.

Role and responsibility

4. We noted that the Logistics Sub-unit (LSU) of the Operations Unit (OU) is responsible to coordinate international procurement with Contracts and Procurement Section (CPS) of UNON in Nairobi until delivery as well as the subsequent management of the property. Some of the aspects carried out by LSU, however, should be undertaken by Contracts and Procurement Unit (CPU) of the Core Team as outlined in the Delegation of Procurement Authority dated 12 October 2001, which include:

- Maintain liaison with CPS/UNON and/or the international commercial market so as to be able to identify suitable suppliers, best prices and delivery terms.
- Receives and inspects, in coordination with the Logistics Officer, goods, construction materials and equipment delivered.

5. CPU should carry out the tracking and monitoring of the progress on status of requests for all international procurement activities in consultation with LSU, which would be responsible for management of the goods when they arrive in Iraq.

We recommend that:

The Contracts and Procurement Unit of the Core Team should undertake its role and responsibility delegated to it by the Executive Director, including maintaining liaison with CPS of UNON and receiving and inspection of procurement of all international and local goods and services (AF2002/24/2/101).

Inventory system

6. In accordance with Financial Rule (FR) 110.25, the LSU of OU maintains a database system, which records the 13 percent account property valued at \$38.11 million as of 15 September 2002 using a computerized Access inventory system introduced in July 2002. We noted that the LSU submits monthly summary inventory reports to CPS/UNON, but did not know whether these reports are reconciled to those of CPS.

We recommend that:

UN-Habitat Northern Iraq should seek clarification from CPS of UNON if LSU's property reports reconciles to their records, and initiate corrective action if necessary (AF2002/24/2/102).

Physical verification

7. We noted that Logistics Sub-unit performed a physical inventory of non-expandable equipment from 26 January to 1 February 2002, as required by FR 110.26. Prior to this, there was no evidence whether any physical inventory verification had been undertaken. LSU stated that it also conducted random spot checks of inventory on a monthly basis, but there was no documentary evidence available. We also noted that no written procedures had been developed and approved for this purpose hence this count was not performed in accordance with the financial rules and the general property guidelines issued by CPS/UNON or how the results were reconciled with the property records.

8. We performed on a sample basis physical check of generators, bulldozers, shovel dozers and a grader located in different field office sites and found the following problems/weaknesses:

(a) The inventory listing erroneously identified the location of six generators valued at \$113,743 as issued to Suleimaniyah when in fact they were issued to Dohuk field office in January 2002. The results of the physical verification carried out in January 2002 did not reveal this discrepancy making it questionable whether any reconciliation had been undertaken. Prompt action, however, was initiated as a result of our inquiry.

(b) Two broken down generators valued at \$15,164, were stored in a Dohuk Field Warehouse since May 2000 (discussed in the disposal of equipment section of this report).

We recommend:

UN-Habitat Northern Iraq, in consultation with the Head of Office and CPS of UNON, should prepare written procedures in accordance with FR 110.26 including the frequency of physical verification of inventories and ensure that the results are reconciled to the inventory database (AF2002/24/2/103).

Use of construction equipment

9. Equipment worth \$3.87 million including 9 bulldozers, 4 shovel dozers; 1 grader and 67 generators was purchased (under phases I, VI and VII) as of September 2002, and was to be used for utmost economy for intended project related purposes. The breakdown is shown in the table below:

DESCRIPTION	UNUSED BROKEN DOWN		USED FOR PROJECT PURPOSES		NEW AND KEPT IN WAREHOUSE UNUSED		USED IN OFFICES		TOTALS	
	QTY	AMOUNT (\$)	QTY	AMOUNT (\$)	QTY	AMOUNT (\$)	QTY	AMOUNT (\$)	QTY	AMOUNT (\$)
Generators	2	15,164	2	14,581	51	670,821	12	155,138	67	855,704
Bulldozers	Nil		9	2,146,000	Nil	Nil	Nil	Nil	9	2,146,000
Shovel dozers	Nil		4	760,000	Nil	Nil	Nil	Nil	4	760,000
Grader	Nil		1	108,500	Nil	Nil	Nil	Nil	1	108,500
Totals	2	15,164	16	3,029,081	51	670,821	12	155,138	81	3,870,204

10. As indicated in the table below bulldozers, shovel dozers and a grader valued at approximately \$3 million were being used for construction of access roads to communities to facilitate the delivery of humanitarian needs. Though a Project Document (PD) was not prepared, the request to purchase the equipment dated May 2000 supported the justification and objective of acquiring this equipment, which was distributed to field offices as follows:

EQUIPMENT TYPE	ERBIL		DOHUK		SULEIMANIYAH		TOTALS	
	QTY	VALUE (\$)	QTY	VALUE (\$)	QTY	VALUE (\$)	QTY	VALUE (\$)
Bulldozer, D155A	2	612,000	1	306,000	2	612,000	5	1,530,000
Bulldozer, D65P-12	2	338,000					2	338,000
Bulldozer, D65-E-12					2	278,000	2	278,000
Shovel Dozer, D75S-5	1	207,000	1	207,000			2	414,000
Shovel Dozer, D57S-1B					2	346,000	2	346,000
Grader, GD621R-1			1				1	108,500
Totals	5	1,157,000	3	513,000	6	1,236,000	14	3,014,500

11. UN-Habitat contracted out the operation and maintenance services of the above equipment to three local contractors in each field office. The audit verified on a spot check basis and noted that contractors adhered to their obligations as follows:

- The contractor deployed and maintained the equipment according to work schedule provided by UN-Habitat. UN-Habitat mechanical engineers in consultation with site engineers and contractor personnel prepared these schedules.
- The contractor maintains a daily operations log, signed by equipment operator and UN-Habitat site engineer.
- A UN-Habitat mechanical engineer monitors and supervises the work of the contractor by making periodic inspections of contractor's garage and workshop facilities, maintenance work being performed on equipment, and equipment operations on project sites. He also reviews and approves requests for spare parts provided by UN-Habitat, invoices submitted by contractor, and prepares maintenance schedules.
- The total contract value includes operation, maintenance, spare parts and other costs. The contract amount is based on a bill of quantities where the required tasks are detailed into hours of operations, maintenance, repairs and spare parts.
- Charges are made by UN-Habitat for the services rendered to the project contractors. These charges are deducted from the contract for the project where the equipment is utilized. The deductions are then paid by UN-habitat to the operation and maintenance contractor.

Inefficient use of generators

12. For the period between February 1998 to March 2002, 67 generators valued at \$855,704 were purchased and received by UN-Habitat Northern Iraq. The types of generator models included Lombardini, IVECO, and PERKIN, which were distributed to field offices as shown in the following table:

DETAILS	ERBIL		DOHUK		SULEIMANIYAH		TOTALS	
	QTY	AMOUNT (\$)	QTY	AMOUNT (\$)	QTY	AMOUNT (\$)	QTY	AMOUNT (\$)
Used on projects			1	4,581	1	10,000	2	14,581
Broken down			2	15,164			2	15,164
New, Kept in warehouses (unused)	23	240,760	12	245,918	16	184,143	51	670,821
Used in offices and warehouses	6	90,434	4	22,790	2	41,914	12	155,138
Totals	29	331,194	19	288,453	19	236,057	67	855,704

13. From the table above, and based on our review and physical verification, we noted as follows:

- Efforts had not been made by UN-Habitat to coordinate with UNDP, the lead agency on electricity supply sector or any other agency in Northern Iraq from project inception to date.
- Only two or about 3% of the 67 generators with a value of \$14,581 were being used to pump water to villages one each in Dohuk and Suleimaniyah, which was the intended purpose as per discussions with staff members. As PDs were not being prepared, the audit could not verify if this was the proper authorized project activity. Furthermore, while the audit noted that the two generators were being used for pumping water to the internally displaced persons, the responsibilities for maintenance had been left to the Local Authorities.
- Fifty one or 76% of the 67 generators valued at \$670,821 were found to be stored in warehouses unused since receipt on different dates ranging from September 2000 to March 2002. The central warehouse at Erbil kept 23 of the generators, while Dohuk and Suleimaniyah kept 12 and 16 generators, respectively. Though PDs were not available to verify the proper authorized project use, the storage and non-use of these generators in warehouses since acquisition is uneconomical and wasteful as the investment in them is not benefiting end users. This suggests that generators are not purchased based on a proper needs assessment or proper planning.
- Some of the reasons for non-use of purchased generators were: (a) a lack of experts to install the generators; (b) complications of coping with the different unit brands installed; and (c) delays in tendering for site design and preparation prior to generator delivery and the enhanced availability of power from the electricity network that has reduced the necessity of installing the remaining generators.

- We noted that 12 generators or about 18% of the 67 generators valued at \$155,140, which were purchased for use on project related activities under the 13 percent account, had been converted for office use in violation of the SCR 986. We noted that UN-Habitat Core team uses 3 generators presently to supply electricity to the offices and staff residential houses while 9 generators are being used to supply power to warehouses and sub-offices in the three field offices. Equipment and supplies meant for office use should be funded from the 2.2 % account, which is set aside for various operational and administrative costs to the UN associated with the implementation of SCR 986, as specified in paragraph 8 (d). As shown in the table above, Erbil uses 6 generators while Dohuk and Suleimaniyah use 4 and 2 generators, respectively.
- Although 24 generators valued at \$177,254 were on order since June 2001, they were due for distribution on receipt to Suleimaniyah 20 generators and to Dohuk 4 generators. During the audit, we noted that the order was cancelled because the supplier could not maintain original price quotations. A re-tender was contemplated. Nevertheless, it was poor planning and uneconomical to request for 24 generators when 51 generators valued at \$670,820 are currently stored new and unused in warehouses.

14. Field Offices explained that the problem encountered was that authorizations are made in phases while the procurement process took very long before the equipment is received. From our analysis of 6 purchase orders (PO)s it took an average of 16.75 months from the request date to receipt of goods. By the time the equipment is received, construction of the project is completed resulting in many of the items purchased not put to their intended use.

We recommend that UN-Habitat Northern Iraq should:

- (i) Develop an action plan, which should be approved by management, with target milestone dates justifying how the 51 generators valued at \$670,821 would be used for project activities, or initiate appropriate disposal action. This should be done after taking into account UNDP/ENRP master plan for electricity generation in the three northern governorates (AF2002/24/2/104);
- (ii) Make appropriate adjustments to the records/accounts to correct the diversion of 12 generators valued at \$155,138 purchased from the 13 percent account funds to reflect their use on operational and administrative activities funded from the 2.2 percent account (AF2002/24/2/105);

(iii) Consult with UNDP/ENRP about its plans to import new generators including technical specifications (AF2002/24/2/106);

(iv) Institute a system to maintain/service the generators in co-operation and coordination of UNDP/ENRP (AF2002/24/2/107); and

(v) Develop an appropriate long-term plan for procuring generators on a real assessment of need in consultation with other UN agencies in Northern Iraq, particularly UNDP/ENRP, which is the lead agency in the electricity sector, to ensure cost effectiveness (AF2002/24/2/108).

Disposal of equipment

15. We noted that UN-Habitat Northern Iraq, under the delegation of authority, has the responsibility to prepare and make referrals for disposition of equipment no longer needed to the Local Property Survey Board (LPSB) at Nairobi for appropriate action. However, the audit noted that referrals have never been made since inception even though there were property items for disposal including:

- Two broken down generators valued at \$ 15,164, previously used for non-project related activities to supply power to the Dohuk Field Office for the period from October 1998 to May 2000, stored in a generator house located at the Dohuk Field Warehouse. Disposal action had not been taken since May 2000.
- The listing of inventory provided for audit review contained differences that understated the total amount by a net of \$16,665. The Logistics Sub-unit attributed this to scale differences, over supply, damage and lost in stock.

We recommend that UN-Habitat Northern Iraq should:

(i) Review all property/assets under its responsibility and initiate referral/write off action to the LPSB at Nairobi for all unused, obsolete or broken down property including two generators valued at \$15,164 (AF2002/24/2/109); and

(ii) Investigate all the differences on the inventory listing, which is understated by a net amount of \$16,665, and report the matter to the LPSB for appropriate action. The process should ensure that property records are corrected (AF2002/24/2/110).

Spare parts

16. Spare parts worth approximately \$428,716 were purchased for bulldozers, shovel dozers, grader and generators. These were kept under the responsibility of the Central Warehouse, which distributes them to field office warehouses on request. The stock of inventory had been purchased together with the equipment when it was originally procured. Our review showed the following:

Inadequate spare parts procurement planning

17. We noted that the LSU had not established procedures to ask field offices toward the end of each year to submit their requirements for the following year, including justifications and explanations for the spare parts required. Discussions with staff in field offices confirmed this problem. Although a problem had not been encountered because spare parts had been received together with newly acquired equipment, LSU risks not having spare parts in stock when they will be needed in the future.

We recommend that:

UN-Habitat Northern Iraq in conjunction with all Field Offices should establish procedures to ensure a proper needs assessment of spare parts which should be consolidated into an annual planning document to ensure items required would be budgeted for and available when they are needed (AF2002/24/2/111).

Ageing of spare parts

18. There is no computerized stock age analysis report. Thus, old or slow moving stock items cannot be readily identified without resorting to manually checking individual items, which is time consuming. Our spot check of stock in different warehouses identified items that were old and unusable (for example, bulldozer shoes which are not suitable for use under present conditions), which were still kept in the warehouse. We noted that a systematic monitoring of the age of stock would help in identifying old items so that appropriate disposal or write-off actions can be initiated in a timely manner.

We recommend that:

UN-Habitat Northern Iraq should review and generate management reports on old and slow moving stocks periodically for making decisions regarding disposal and replenishment (AF2002/24/2/112).

Contracts for management of construction equipment

19. UN-Habitat Northern Iraq engaged services of three contractors one each in Erbil, Dohuk and Suleimaniyah with expertise in the operation and maintenance of construction equipment, namely bulldozers, shovel dozers and a grader, all valued at about \$3 million. The contracts were valid for the period from 28 January to 30 September 2002. Our review showed the following:

(a) The three contracts completion dates had expired on 30 September 2002, yet they had not been renewed. In the course of the audit, we noted that contractors were using the equipment on project activities. Upon our audit inquiry it prompted the OU to initiate renewal instructions, which were not based on any formal evaluation of contractor performance. Instead, the decision was based on memos from the OU to contractors, which is a conflict of interests, as the CPU should undertake this function.

(b) All construction equipment has not been insured against risks as recommended in PM chapter 14, Annex II section 8.1.

(c) We noted that key clauses requiring contract monitoring and supervision, and schedule of progress in performance or other reports for submission to UN-Habitat did not form part of the contract provisions.

(d) Clause 3.3 of each of the three contracts states that "UN-Habitat shall effect payment of invoices, equivalent to the value of the services completed, less a 10% retention payable upon completion of all services under the contract and confirmation by UN-Habitat's Technical Unit that the services have been satisfactorily completed. Our review showed that all invoice amounts had been paid in full for all the cases without withholding the 10% retention fees. The three contractors should have been paid \$91,147, less the 10% retention of \$10,128 of the invoice amounts totalling \$101,275 as of October 2002 as shown in table below:

DETAILS	CONTRACT AMOUNT (\$)	NO OF INVOICES	TOTAL INVOICE AMOUNT (\$)	LESS 10% RETENTION (\$)	BALANCE TO PAY (\$)
Erbil	75,710	5	32,076	3,208	28,868
Dohuk	57,742	3	22,169	2,217	19,952
Suleimaniyah	103,900	4	47,030	4,703	42,327
Totals		12	101,275	10,128	91,147

We recommend that UN-Habitat Northern Iraq should:

(i) Establish procedures to build into contracts key clauses such as contract monitoring and supervision, schedule for submission of progress or other reports, and for

renewal instructions, which should be based on formal evaluation of contractor performance (AF2002/24/2/113);

(ii) Ensure that construction equipment, including bulldozers, shovel dozers and a grader are insured against risks in conformity with PM chapter 14, Annex II section 8.1 (AF2002/24/2/114);

(iii) Enforce terms of the three contracts, which require retention of 10% of invoice amounts or \$10,128 of the amount billed of \$101,275 as of October 2002, and all future invoices payable only upon satisfactory completion of all services for the three contracts (AF2002/24/2/115); and

(iv) Ensure that the Contracts and Procurement Unit perform its responsibilities including processing contracts when due for renewal (AF2002/24/2/116).

Contract for transport services

20. UN-Habitat Northern Iraq contracted with a local company to provide transport services for delivery of various commodities from warehouses in Erbil, Dohuk and Suleimaniyah to different destinations and locations in Erbil, Dohuk and Suleimaniyah Governorates to support the implementation of resettlement and rehabilitation activities. A memo from CPS of UNON dated August 2000 approved \$373,500 for the transport contract valid from 1 September 2000 to 31 August 2001. Our review of this contract showed the following:

(a) The contract was subsequently extended three times from 1 September to 30 November 2001, 1 December 2001 to 28 February 2002 and 1 June to 30 November 2002. No attempt had been made to confirm in the open market that the contractor still offered the best value for money prior to extensions. Furthermore, there was no documentation on file showing that a formal evaluation of contractor performance had been carried out on which to base renewal decisions. Instead, the decisions were normally based on a memo from the concerned substantive office.

(b) Discussions with staff confirmed that a contract extension was not entered into for the period between 1 March and 31 May 2002, as there was no document to support this period. This means that the contractor operated without a valid contract extension, and was paid \$43,406 for services rendered during that period. This is a serious control weakness and violates Financial Rule 110.22 (b) ii.

(c) The contract format was not prepared in conformity with Financial Rule 110.22 and PM chapter 14 as key clauses such as statement of work, responsibility of contractor, contract monitoring and supervision, schedule of progress reports to be submitted by contractor, contract price, and liquidation damage clause were not included.

We recommend that UN-Habitat Northern Iraq should:

- (i) Incorporate key provisions in contracts as outlined in the PM section 14.02.01 including the establishment of guidelines setting out specific responsibilities for monitoring adherence to contract provisions and who should be responsible for monitoring adherence to these terms (AF2002/24/2/117);
- (ii) Establish a methodology for evaluating contract renewals including: evaluation criteria, benchmarking costs against similar contracts; customer satisfaction surveys; and defining the respective responsibilities of UN-Habitat Northern Iraq and the office responsible for monitoring future contracts (AF2002/24/2/118);
- (iii) Put out to tender transport services contract when it expires on 30 November 2002 to ensure value for money is received (AF2002/24/2/119); and
- (iv) Initiate corrective action to document validity of the transport services contract for the period from 1 March to 31 May 2002 in conformity with Financial Rule 110.22 (b) ii (AF2002/24/2/120).

Equipment on order pending delivery

21. We noted that equipment including concrete mixing and batching plants; asphalt pavers; drilling rigs, mountings and fittings; telescopic mobile cranes and generators valued at \$6.24 million are on order pending delivery as shown in following table:

PO #	PO DATE	DESCRIPTION OF ITEM	QTY	PO AMOUNT (\$)	COMMENTS
2001-20-20059/DO	02/06/01	Drilling rigs, mounting & fittings	3	1,001,814	Amended on 07/02/02 to revise specifications
2001-20-20075/DO	21/06/01	Generators	24	230,784	Order cancelled in Sept.02 due to price changes. Re-tender planned
OBPG-536	24/01/02	Telescopic mobile cranes	3	1,898,021	Firm delivery by 31/10/02 as amended
OBPG-663	19/02/02	Asphalt pavers	10	2,253,255	Firm delivery of 5 units by 22/08/02 & another 5 units by 22/09/02 as amended
OBPG-662	19/02/02	Concrete mixing & batching plants	3	856,441	Firm delivery by 9/12/02 as amended
Totals				6,240,315	

22. Our review of the above 5 POs where goods are pending delivery revealed the following:

- As of October 2002, the lead period was ranging from 8.5 months to 17 months since purchase orders were issued before delivery of goods. Of the 5 POs, CPS has amended 3 POs to include delivery deadlines, one of which expired on 22/8/02 and 22/9/02 while the second PO expired on 31/10/02. As of audit period, the terms of the performance bond had not been enforced, as goods had not been delivered.
- PO number 2001-20-20075/DO was cancelled because the supplier was unable to maintain prices by the time the 661 Committee approval had been received, which took more than 5 months. A re-render was planned.
- Several other requests for purchase of construction equipment are in various stages of procurement pending with UN-Habitat Headquarters or CPS of UNON for items including bulldozers, shovel dozers, graders, concrete truck mixers, truck mounted concrete pumps, soil drilling rigs, bitumen distributors-truck mounted, bridge panels, fire fighting machines, mobile laboratory equipment, snow ploughs and asphalt cutters and deep cut cold planers all valued at more than \$17.82 million.

23. The audit noted that a mechanism is not in place to track and monitor progress on status of requests for procurement of equipment. The status of many requests for procurement of equipment was unknown for long times. Often CPS advised the status and disclosed that requests or orders were on hold pending clearance or had been cancelled by UN-Habitat Headquarters such as requests for crusher plants, bulldozers, crawler excavators, motor graders, snow scrappers, field laboratories, and wheel loaders.

We recommend that UN-Habitat Northern Iraq:

- (i) In consultation with UN-Habitat Headquarters and CPS of UNON ensure that purchase orders have penalty clauses and a mechanism to monitor them to ensure timely delivery of goods. The performance bonds for orders, which are due for delivery, should be enforced for non-performance (AF2002/24/2/121);
- (ii) In consultation with UN-Habitat Headquarters review all the pending requests and develop a long-term plan for purchasing equipment based on needs assessment. This should include an assessment on how the equipment would be maintained on a long term basis (AF2002/24/2/122); and
- (iii) Develop a checklist to help monitor progress of international procurement actions to identify bottlenecks and initiate corrective action to ensure timely delivery of goods (AF2002/24/2/123).

Procurement planning

24. The Procurement Manual (PM) section 4.02 states that procurement planning is essential for effective and timely solicitation of bids or proposals, award of contracts and delivery of goods and services required. Furthermore, A/RES/55/247 section 12 encourages preparation of annual procurement planning. Our review of LSU, which coordinates all international procurement with CPS of UNON in Nairobi until delivery showed as follows:

- Annual procurement plans were never prepared as encouraged by the GA documents on procurement reform. As such nothing was submitted to Headquarters as a basis for monitoring and evaluating procurement performance.
- We confirmed that UN-Habitat Northern Iraq does not coordinate the purchase of generators with UNDP, which is the lead agency in the electrical sector.
- Project Documents (PD) were never prepared for phases I to VI of the programme. Furthermore, a review of POs did not show the objectives for purchasing this equipment. However, staff members told us that generators and bulldozers; shovel dozers and a grader purchased under phases I and VI were justified and met the desired project objectives. We noted that UN-Habitat Northern Iraq began preparing PDs under phase VII using guidance provided by UNOHCI. A review of this PD,

however, showed that it neither budgeted and justified nor disclosed the objectives of purchasing 32 generators valued at \$402,000. This suggests weaknesses in the planning and preparation of PDs, and should be reviewed.

25. As a consequence, procurement was not based on a needs assessment, which has resulted in 51 generators being purchased and kept in the warehouses unused for periods ranging from September 2000 to March 2002. Furthermore, 12 generators meant for project related activities were converted into office use.

We recommend that:

UN-Habitat Northern Iraq in consultation with other UN agencies should ensure that project documents are prepared and approved in accordance with established guidelines. The project documents should document all planned procurement of equipment based on a proper need assessment, budget allocation, justification and adequate annual planning (AF2002/24/2/124).

Procurement systems contract

26. The audit noted that UN-Habitat Northern Iraq did not give consideration to procurement of construction and other equipment by using systems contract as provided for in the PM section 4.08, which states that systems contracts need to be established when it is determined that the goods and/or services being procured will be required for an extended period of time varying from 2 to 5 years. Such contracts facilitate prompt processing of procurement, secure competitive prices and avoid issuing repetitive contracts for the same items some of which may require separate tenders and therefore be time consuming. Overall, there are a number of benefits to using systems contract, such as efficiency and economies of scale.

27. The audit noted that several generators were purchased between October 1998 and March 2002, and will continue to be purchased for project related activities in the future. In particular, two types of generators with capacities of 50 KVA and 250 KVA were procured under three separate orders each. The 50 KVA generators were purchased at a low price of \$7,149 and a high price of \$10,000 while the 250 KVA generators were purchased at a low price of \$19,537 and a high price of \$21,898. Although, comparisons with other agencies including UNDP, UNICEF, UNESCO and FOA did not show any price

comparative advantage, we believe that consultations with other Agencies should be undertaken in the future.

We recommend that:

UN-Habitat Northern Iraq, in conjunction with CPS of UNON, should explore the possibility of using a system contract for procurement of repetitive goods such as generators, which are required for extended periods of time, at least two years, with built in mechanisms to monitor performance to ensure timeliness in delivery, competitiveness in prices and efficiency. Efforts should be made to consult with other UN agencies to ensure that value for money is achieved (AF2002/24/2/125).

Requisitioning for goods and services

28. The audit noted that arrangements for raising requisitions were not properly documented nor was statistical data kept on how consolidated requests from field offices were prepared. We noted that memo requests, which were neither numbered nor properly tracked, were faxed to Nairobi. From 11 purchase orders (PO)s with a value of \$ 13.99 million sampled for review, documentary evidence supporting requisitions was not availed. It was therefore, difficult to determine whether certification for funds availability was given prior to initiating the purchase in conformity with the Procurement Manual (PM) section 4.04.

We recommend that UN-Habitat Northern Iraq should:

- (i) Maintain an audit trail of properly certified requisitions for all international procurement of goods including the 11 POs reviewed (AF2002/24/2/126); and
- (ii) Establish a system to ensure requests for procurement of goods were consecutively numbered and tracked for accountability and control purposes (AF2002/24/2/127).

Use of brand Names

29. OIOS noted that requests for purchases prepared by UN-Habitat Northern Iraq often specified brand names, and were not generic in nature as required by the PM section 4.04.03. From a sample review of requests sent to UN-Habitat Headquarters, we noted that brand names or suppliers names were used such as Liebherr telescopic mobile cranes, Perkins UK generators, and bulldozer Komatsu. Specifications may

be given only in conformity with Financial Rule 110.19 and PM chapter 9 on exceptions to calling for bids or proposals.

We recommend that:

UN-Habitat Northern Iraq should ensure that requests or specifications for purchases should be generic in nature in order to facilitate fair competition for goods and services being acquired (AF2002/24/2/128).

Timeliness of procurement

30. The GA resolution A/RES/55/247 on procurement reform encourages efficiency; transparency and cost-effectiveness of the procurement process, a key element that includes timeliness. We analyzed the time taken in various stages of procurement at UN-Habitat Northern Iraq of 11 POs of goods procured internationally and noted delays could be due to internal and external factors. A summary of this analysis is shown in the table below:

P O No.	Requisition Date	661 Approval Committee		Bid Request	Bid Receipt	Bid Evaluation	Purchase Order	Receipt and inspection of Goods	Comments
		Date submitted	Date Approved						
7-20-20076	29/4/97	N.A	28/7/97	N.A	N.A	N.A	31/12/97	12/4/99	Phase 1
2000-20-20013/DO	29/7/99	N.A	18/1/00	1/12/99	27/3/00	N.A	14/5/00	16/9/00	Phase 6C
2000-20-20047/DO	3/4/00	19/4/00	15/9/00	28/9/00	30/10/00	8/11/00	11/11/00	14/7/01	Phase 6E
2001-20-20030/DO	14/11/99	22/5/00	27/6/00	23/6/00	28/7/00	9/1/01	25/2/01	25/9/01	Phase 6F
2001-20-20004/DO	24/4/00	13/2/01	4/4/01	26/6/00	21/9/00	N.A	20/1/01	12/12/01	Phase 7B
2001-20-20043/DO	12/9/00	4/5/01	30/5/01	26/10/00	23/11/00	4/1/01	31/3/01	12/3/02	Phase 7C
2001-20-20059/DO	19/10/00	22/6/01	30/10/01	21/12/00	31/1/01	6/3/01	2/6/01	N/A	Not yet Received
OBPG-536/DO	8/4/01	26/2/02	18/6/02	26/4/01	9/8/01	29/8/01	24/1/02	N/A	Not yet Received
2001-20-20075/DO	14/1/01	21/7/01	30/10/01	13/2/01	24/7/01	N.A	21/6/01	N/A	Not yet Received
OBPG-663/DO	25/2/01	20/3/02	24/5/02	9/3/01	11/10/01	11/10/01	19/2/02	N/A	Not yet Received
OBPG-662/DO	8/4/01	20/3/02	5/6/02	26/4/01	1/10/01	28/9/01	19/2/02	N/A	Not yet Received

31. From the table above, where goods had been received in 6 cases, we noted that for internal and external factors combined, it took an average of 16.75 months from the time of the request to receipt of goods, with the longest time being 22 months for PO # 2001-20-20030 and shortest time being 11.5 months for PO # 7-20-20076. Internally, it took an average of 4.2 months for 5 cases from requisition to bid request while externally it took an average of 9.58 months for 6 cases from the time a PO is raised to the time goods are actually received in Northern Iraq, the longest time being 15.5 months for PO # 7-20-20076 and the shortest being 4 months for PO # 2000-20-20013.

32. As Logistics Sub-unit (LSU) does not keep statistical data to monitor status of procurement actions, it was difficult for it to identify bottlenecks in the stages of procurement.

We recommend that:

Logistics Sub-unit should establish milestones and targets and a monitoring mechanism from the time of requisitioning to receipt of goods procured internationally to facilitate better management control (AF2002/24/2/129).

Local Committee on Contracts (LCC)

33. The audit noted that the LCC of UNON reviewed all international procurement actions for UN-Habitat Northern Iraq as presented by CPS of UNON. From a sample of 11 POs selected for testing, the LCC approved actions in all the 7 cases where documentary evidence was available for audit review. For cases relating to PO numbers 7-20-20076, 2000-20-20013 and 2001-20-20004 documentation was not available for audit review while PO number 2001-20-20075/DO was cancelled, as the supplier could not maintain prices quoted originally. Activities of LCC established locally in Northern Iraq through delegation of authority were not reviewed, as it is not responsible for international procurement.

We recommend that:

UN-Habitat Northern Iraq should liaise with CPS of UNON and obtain minutes of LCC approving international procurement of goods for its records, management control/review and audit trail purposes (AF2002/24/2/130).

Receiving and Inspection Reports

34. The Receiving and Inspection Unit of CPS/UNON carries out receiving and inspection functions upon advice by UN-Habitat Northern Iraq with regard to all international procurement. Their report then becomes the basis for payment to the supplier. In 6 cases where construction and other equipment valued at \$4.74 million had been procured and receiving and inspection report (RIR) records were available for review, we noted as follows:

- CPS prepared an RIR dated 16 November 2000 relating to PO # 2001-20-20043. However, it did not prepare RIRs in 2 cases relating to POs #s 2000-20-200047 and 2001-20-20030. It stated that between 1999-2000 it had not used RIR for Iraq equipment and that payment was based on acknowledgement of receipt of goods by UN-Habitat. We could not establish how property records were updated as required by Financial Rule 110.27 in the absence of RIRs.
- Documentary evidence of proper RIR was not available for audit review in 3 cases relating to POs numbers 7-20-20076, 2000-20-20013 and 2001-20-20004.

We recommend that:

- (i) CPS of UNON in consultation with UN-Habitat Northern Iraq should ensure that receipt and inspection function is carried out in accordance with Financial Rule 110.27 as a basis to up date property records and to authorize payment (AF2002/24/2/131); and
- (ii) UN-Habitat Northern Iraq, in consultation with CPS of UNON, should ensure that adequate documentation is kept on its files for all international procurement for audit trail purposes (AF2002/24/2/132).

35. We wish to express our appreciation for the assistance and co-operation extended by UN-Habitat Northern Iraq, during the conduct of this audit.

Cc: Ms. Dorothee VonBrentano, UN-Habitat Headquarters

Mr. Robert Goodwin, Operations Manager, UN-Habitat Northern Iraq

Mr Hans Benz, CAO, UN-Habitat Northern Iraq